



**Universität  
Zürich**<sup>UZH</sup>

Department of Business Administration



SWISS NATIONAL SCIENCE FOUNDATION

*Guest lecture, May 21, 2014*

## **Organizing for Corporate Social Responsibility: Fighting Corruption**

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*(Chair of Professor Dr Andreas Georg Scherer)*

*Research project supported by the SNF Swiss National Science Foundation:*

*Project period: 1<sup>st</sup> July 2012 – 1<sup>st</sup> July 2015*



## Agenda

1. Introduction
2. Organizing corruption controls after a scandal:  
*Change processes in legitimation strategies and institutional environments*
3. 'Clean' companies in 'dirty' business countries:  
*Prospects and pitfalls of anti-corruption programs*
4. Summary and outlook



## Research context and problem

### *Organisational corruption:*

- "Misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, where misuse in turn refers to departures from accepted social norms" (Anand et al., 2004: p. 40)

### *Focus on:*

- Systemic corruption („bad barrel approach“) (Ashforth et al., 2008)
- MNCs supplying corruption/bribery to foreign government officials

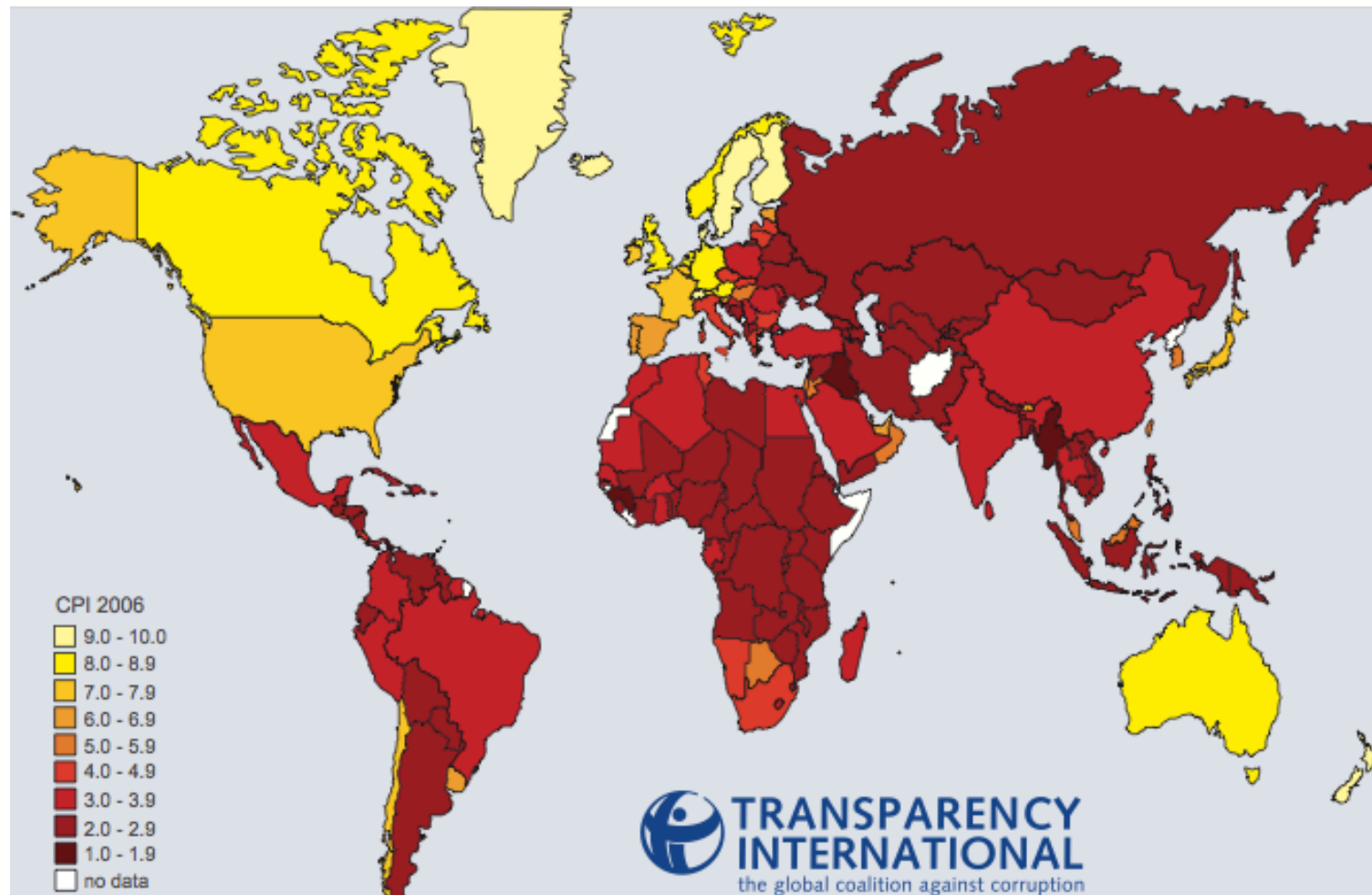
### *Problem:*

- Process of globalization multiplies risk and scope of corruption.
- Institutional expectations to fight corruption and the enforcement of anti-corruption laws (by Western authorities) are increasing over the last years.

→ Challenge of maintaining legitimacy for Multinational Companies (MNCs)

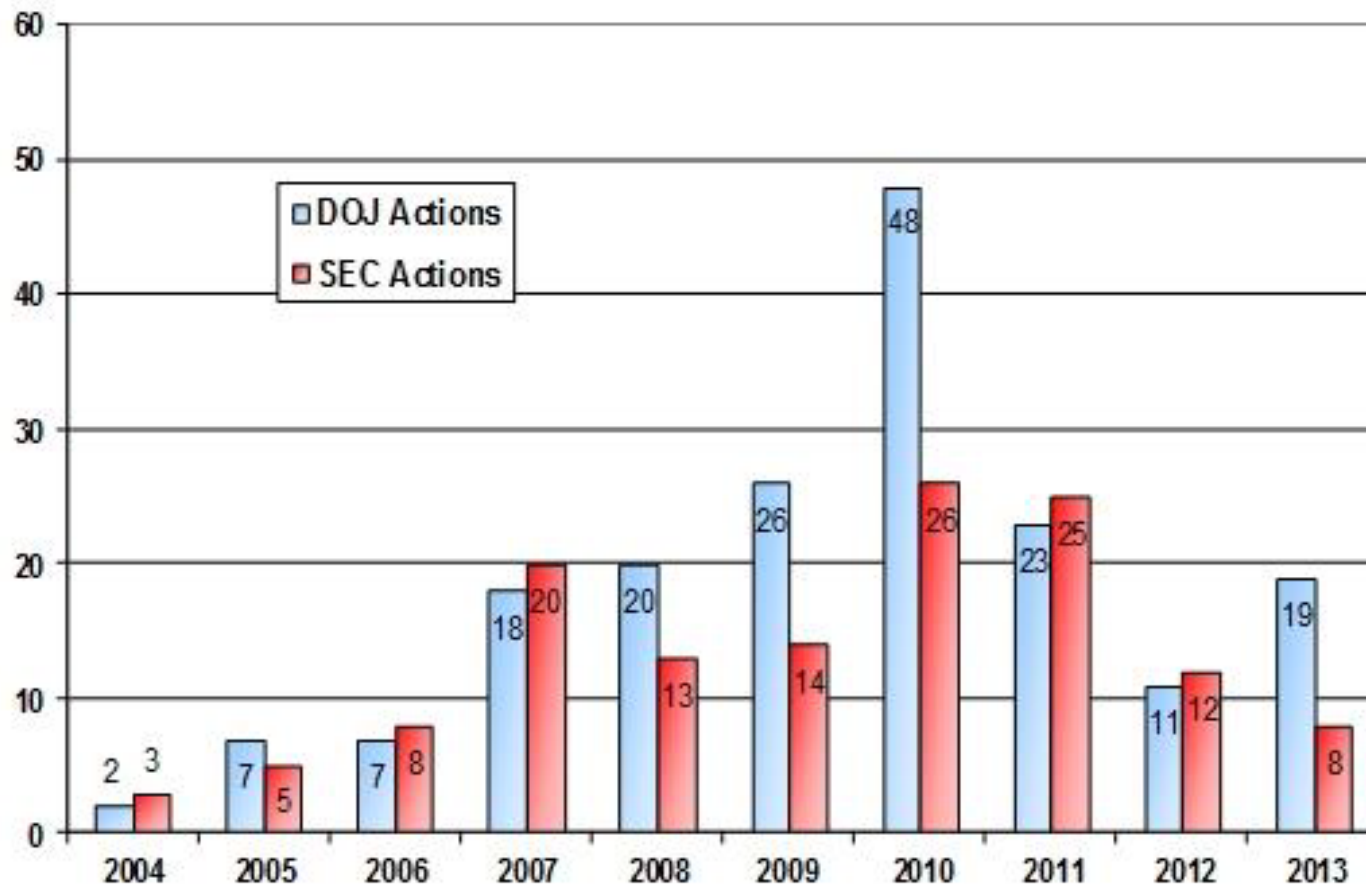


## Perceived corruption risks (Transparency International, 2006)





## Enforcement statistics (Foreign Corrupt Practices Act)



Source: Gibson Dunn, 2013 year-end FCPA update



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## Contribution and research questions

- *Extending insights from recent studies on “reintegration after the fall” and ‘institutional entrepreneurs’ (e.g. Battilana et al., 2009, Gebhardt & Müller-Seitz, 2011; Pfarrer et al., 2008)*
1. *How do corruption scandals trigger certain organizational change processes and thereby influence the legitimation strategies of MNCs?*
  2. *Why do certain MNCs act like an anti-corruption institutional entrepreneur upon reintegration?*



## Insights from institutional theory

MNCs try to adapt their organizational structures to the increased expectations of their institutional environment to fight transnational corruption.

Three legitimation strategies (Driscoll, 2006; Oliver, 1991; Scherer et al., 2013; Scott, 2001):

1. Isomorphic Adaption
2. Moral Reasoning
3. Strategic Manipulation
  - a. Symbolic: Decoupling (Meyer & Rowan, 1977)
  - b. Substantial: Strategic influence

→ Our argument: **A disclosed corruption scandal has distinct influence on the choice of legitimacy strategies.**





## Nature and scope of a scandal

- No/small scandal: Firms may apply various (possibly contradicting) legitimation strategies simultaneously (Scherer et al., 2013 → Lewis, 2000)
- Big scandal: Only chance to recover from legitimacy shock to choose one (or very few) distinct legitimation strategy?!

Two factors for classifying the size/scope of a scandal:

- Costs/regulatory sanctions**: Amount of monetary fines, procedural costs, and costs for implementing the imposed organizational processes
- Prominence of transgression and transgressor**: Timing of the organizational corruption scandal regarding the public attention towards the issue; unprecedented in industry/country/....?



## Research design

Following the call of Pfarrer et al. (2008):

- (1.) *Longitudinal case study designs*: 2-3 rounds of interviews with intervals of 12 months; documentary data
- (2.) *Set of transgressors with the same or related types of transgressions*: Siemens ("big" scandal), ABB ("small" scandal), Daimler ("medium" scandal), Shell?
- (3.) *Analysis of each organization's actions*: Reintegration model (Pfarrer et al. 2008) & Corporate Organizational corruption control models (Lange 2008, SEC Guidelines ...)
- (4.) *Press coverage over time to examine reintegration*: RepRisk AG



# SIEMENS

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U.S. Securities and Exchange Com

## SEC Charges Siemens AG for Engaging in Worldwide Bribery

Linda Chatman Thomsen, Director of the SEC's Division of Enforcement, said, "This pattern of bribery by Siemens was unprecedented in scale and geographic reach. The corruption alleged in the SEC's complaint involved more than \$1.4 billion in bribes to government officials in Asia, Africa, Europe, the Middle East, and the Americas. Our success in bringing the

The SEC's complaint alleges that between March 12, 2001, and Sept. 30, 2007, Siemens created elaborate payment schemes to conceal the nature of its corrupt payments, and the company's inadequate internal controls allowed the conduct to flourish. Siemens made thousands of payments to third parties in ways that obscured the purpose for, and the ultimate recipients of, the money. Employees obtained large amounts of cash from cash desks, which were sometimes transported in suitcases across international borders for bribery. The authorizations for payments were placed on post-it notes and



<Interne Quellen\\Interviews\\Siemens Schweiz\_Waldschmidt\_2012> - § 4 Referenzen kodiert  
[1,35% Abdeckung]

**Referenz 1 - 0,22% Abdeckung**

Eine Krise hilft, und so ein Skandal hilft und wir waren an dem Punkt, da gab es nur noch entweder wir reissen das Ruder um oder wir gehen unter.

**Referenz 2 - 0,37% Abdeckung**

Und in diesem ersten Step haben wir glaub ich notwendige Massnahmen getroffen, die uns heute noch helfen oder die uns auch vor allen Dingen geholfen haben, aus diesem Skandaltal in eine Erfolgsstory zu kommen, was das Thema Compliance anbelangt.

**Referenz 3 - 0,28% Abdeckung**

Der Skandal - wir hatten ja keine Chance; wir hatten die Staatsanwaltschaft im Haus und als gelistetes Unternehmen an der New Yorker Börse natürlich auch die SEC, da gab es keine Wahl.

**Referenz 4 - 0,48% Abdeckung**

Und mit dem Skandal und mit diesen Vorwürfen und diesen Emotionen war aber auch jedem klar, es muss was Radikales passieren, es muss eine tiefschürfende Veränderung passieren, und dann war es natürlich auch eine grosse Veränderung, dass neue Vorstandsvorsitzende von Extern kamen, das gab es ja davor ja auch nicht.



## Unprecedented (very big) scandal

- NO TIME: Only chance to survive is radical, instant and unprecedented change:
  - Strict commands from the top (no consensus finding processes)
  - 80% of the top mgmt. replaced; compliance staff from 60 to 600; centralization of organizational structures
  - New CEO (Peter Löscher): „Only clean business is Siemens business - everywhere - everybody - every time...“

### Legitimation strategy:

- **‘Strategic influence’** through ‘over-fulfilment’ of institutional expectations

→ Institutional Entrepreneur: Collective Action program including elements of ‘(moral) reasoning’ strategy

# DAIMLER

## SEC Charges Daimler AG With Global Bribery

**FOR IMMEDIATE RELEASE** The SEC alleges that Daimler paid at least \$56 million in improper payments over a period of more than 10 years. The payments involved more than 200 transactions in at least 22 countries. Daimler earned \$1.9 billion in revenue and at least \$90 million in illegal profits through these tainted sales  
**2010-51**

→ **Medium-sized scandal:** “*Daimler played it differently.*” (Gibson Dunn)

- TIME: No big shocking moment; less need for instant and radical change
- External (FCPA) monitoring period less smoothly: continuous external regulatory pressure
- Gradual development of compliance program: Less management exchange, fewer compliance staff (<200), value flows streamlined yet not fully centralized
- Finally, comprehensive compliance program: “... weaknesses have become much smaller in the past two years and the strengths have become much larger” (Louis Freeh)

### Legitimation strategies:

- ‘**Isomorphic adaptation**’ (to regulatory requirements and leading business practices)
- Elements of (initial) ‘decoupling’ and ‘(moral) reasoning’ (UNGC LEAD program)



## SEC Charges ABB For Bribery Schemes in Mexico and Iraq

### SEC SUES ABB LTD IN FOREIGN BRIBERY CASE

In its complaint, the Commission charged that, from 1998 through early 2003, ABB's U.S. and foreign-based subsidiaries doing business in Nigeria, Angola and Kazakhstan, offered and made illicit payments totaling over \$1.1 million to government officials in these countries. ... The complaint further alleged that the payments were made with the knowledge and approval of certain management level personnel of the relevant ABB subsidiaries

Washington, D.C., Sept. 29, 2010 — The Securities and Exchange Commission today charged ABB Ltd with violations of the Foreign Corrupt Practices Act (FCPA) for using subsidiaries to pay bribes to Mexican officials to obtain business with government-owned power companies, and to pay kickbacks to Iraq to obtain contracts under the U.N. Oil for Food Program.

- **Two separate disclosures of FCPA related incidents of corruption**

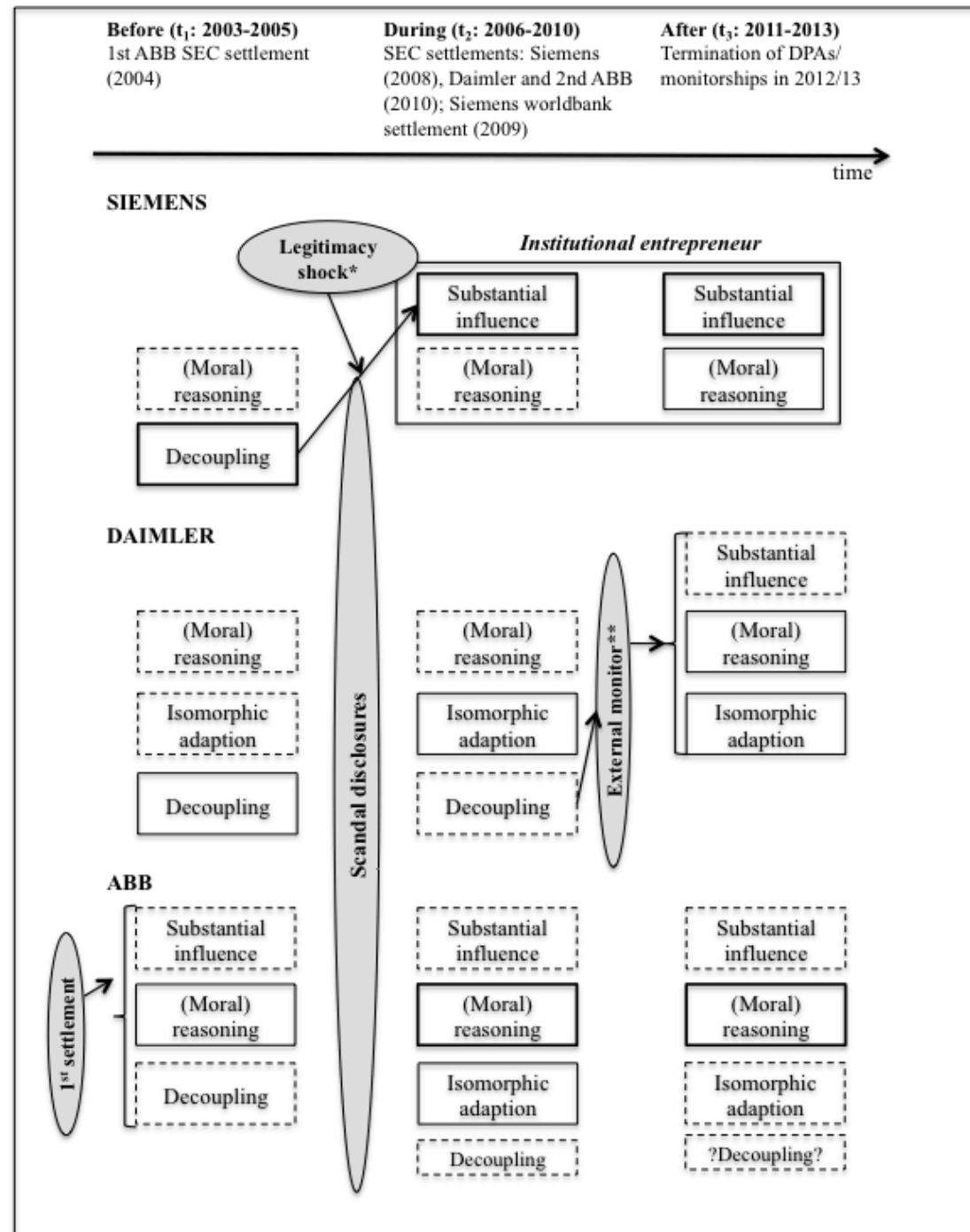
- 1) Low levels of regulatory and social sanctions → settlement without deferred prosecution agreement or monitoring requirements
  - Focus on internal and external „moral reasoning“: expressing commitment in corporate annual reports and participating in collaborative initiatives (PACI, UNGC, TI) → at that time: leading practices; elements of institutional entrepreneur?
- 2) Higher levels of regulatory sanctions → deferred prosecution agreement; still very low levels of social sanctioning/media attention
  - Despite continuous regulatory pressure, main focus on internal value change “*from compliance to integrity*” while possibly neglecting comprehensive bureaucratic controls
  - Denial of big impact of the two scandals on ABB’s strategy → voluntary approach



## To sum up:

Important factors determining legitimation strategies

1. Time/timing
2. Legitimacy shock
3. External monitoring



\*Nov. 2006: Big investigation at Siemens HQ    \*\*Strong critique in first year report





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## Research problem and questions

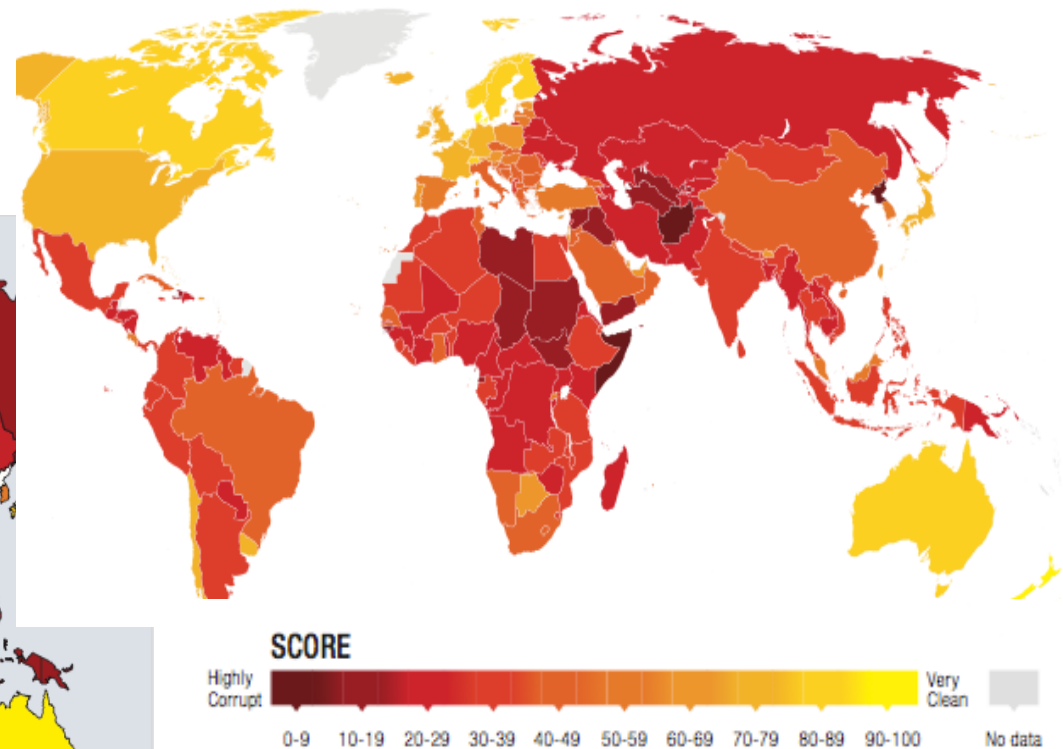
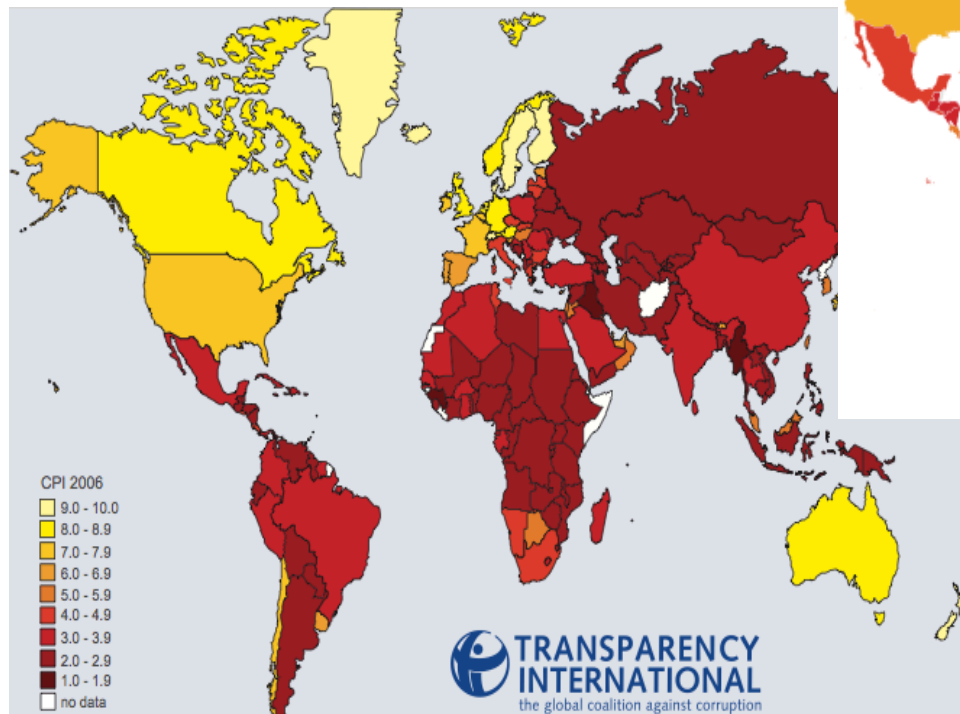
- After recent waves of scandals and transnational anti-corruption law enforcement, many (Western) MNCs apply strict compliance policies and practices worldwide.
- However, significant heterogeneity of corruption risks across regions and countries remains.

→ Challenge for MNCs to maintain legitimacy when doing 'clean' business in 'dirty' business countries (countries with high corruption risks)

1. *How can corporations maintain their 'clean' strategies and influence their heterogeneous environments?*
2. *To what extent may these MNCs have to reengage with decoupling processes in complex and heterogeneous environments?*



## Perceived corruption risks (TI, CPI) 2006 and 2013





## Theoretical background & research design

- Theories of **CSR** suggest tight coupling (“walk the talk”), the alignment of codes of conduct with actual work practices and structures (e.g. Aravind and Christmann, 2011; Boiral, 2007)
- Theories of **decoupling** suggest decoupling as a strategy to maintain legitimacy despite institutional contradictions (Meyer and Rowan, 1977)

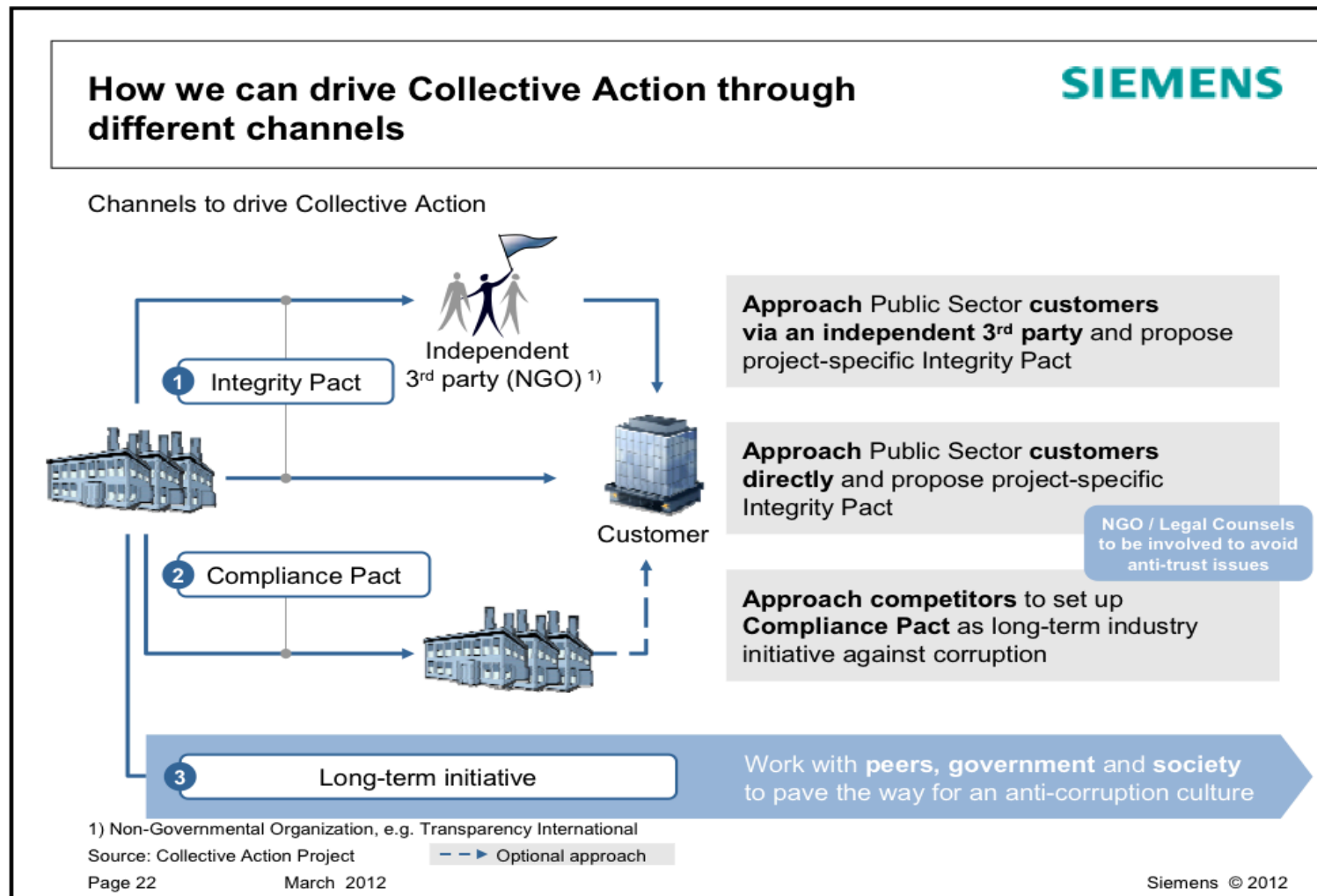
### Research design:

- Qualitative case study of Siemens, Daimler, ABB, Shell
- Second study 2014/15: Empirical analysis in **high risk countries** with corporate compliance experts as well as external parties such as NGOs, chambers of commerce or embassies: Southeast Asia including PR China
  - Focus on collective action programs, integrity pacts, compliance and integrity strategies (Pieth, 2012; Zindera, 2013; Paine, 1994) as corporate measures to influence the institutional environment



# Siemens' post-scandal anti-corruption strategy

“Only clean business is Siemens business - everywhere - everybody - every time...” Peter Löscher (see: Moosmayer and Winter, 2011, p. 4)





## Analysis & findings

	Prospects (success factors)	Pitfalls (risk factors)
<b>National context</b>	<ul style="list-style-type: none"> <li>Political will to fight corruption exists</li> <li>People are aware of what corruption is (as regards the grotesque forms) and are 'fed up'</li> <li>Cultural differences should not be an excuse: See Singapore</li> </ul>	<ul style="list-style-type: none"> <li>Problems with the execution of political will</li> <li>Tolerance level of corruption still differs widely</li> <li>Reducing corruption strongly dependent on economic growth: If jobs become unsecure, corruption is likely to increase. (UN representative, Vietnam)</li> </ul>
<b>Collective Action</b>	<ul style="list-style-type: none"> <li>Integrity Initiative, Philippines: Some success in getting companies to sign the Integrity Pledges</li> <li>"If we don't share what Siemens has done, nobody would know about it."</li> </ul>	<ul style="list-style-type: none"> <li>Integrity Initiative, Philippines: Much more 'teeth' and 'bites' needed</li> <li>Integrity Pacts face the fear of being perceived as 'just another piece of paper'</li> <li>Collective action initiatives have not yet reached 'performative' level</li> </ul>
<b>Best product wins?!</b>	<ul style="list-style-type: none"> <li>We have a strong brand and people want our products – also without bribes. (Daimler interview)</li> </ul>	<ul style="list-style-type: none"> <li>Best product does not necessarily/likely win. This is sometimes not even intentional.</li> <li>Lack of capacity e.g. in public tenders on complex infrastructure/transport projects</li> <li>Strong focus on cheapest price ('no need to buy the subway twice')</li> </ul>



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1. *Siemens has set a benchmark in anti-corruption processes, which more and more MNCs seem to follow.*
2. *MNCs still operate in environments with (very) high corruption risks.*
3. *Collective Actions have not yet led to a reliable common level playing field.*
  - *MNCs can ‘only’ promote integrity, but not ensure compliance.*
4. *At the same time, the ‘best’ product not necessarily wins.*

Propositions and outlook:

*To manage this challenge*, statements (especially) from the NGO side (e.g. TI Malaysia) suggest that ‘clean’ MNCs may have sufficient leeway to apply more subtle forms of corruption including indirect/oral/‘private’ favors and/or cronyism:

- “You can be 100% compliant (to the rules), but still violate the principles.”
- Some sort of ‘decoupling’ may be perceived as inevitable for these MNCs to secure their economic base while promoting a common level playing field.





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# ***Discussion & Questions***